



Energy Retailers Association
of Australia Limited

NT Utilities Commission
GPO Box 915
Darwin NT 0801

Email: utilities.commission@nt.gov.au

Re: Review of Options for Implementation of a Customer Service Incentive Scheme for Electricity Customers

Dear Sir/Madam

The Energy Retailers Association of Australia (ERAA) welcomes the opportunity to comment on the Northern Territory (NT) Utilities Commission's Issues Paper addressing the implementation of a customer service incentive scheme (*the scheme*) for electricity customers.

The ERAA is an independent organisation representing retailers of electricity and gas throughout Australia. ERAA membership is comprised of 14 full members and 5 associate members who collectively provide electricity to over 98% of customers in the National Electricity Market (NEM) and throughout other parts of Australia including the NT and WA.

In the issues paper, the Utilities Commission has stated that it is investigating ways in which energy retail companies could be included under the scheme. The purpose of this submission is to draw to the Utilities Commission's attention the potentially detrimental consequences of imposing the scheme on energy retailers for the eventual establishment of a competitive energy retail market in the NT. It is the ERAA's opinion that the Utilities Commission should be instead focussing on measures that will eventually foster a competitive and efficient electricity market.

The nature of the energy retail industry is not that of a natural monopoly. Evidence from the NEM and other electricity markets throughout the world unequivocally demonstrate that the energy retail market can flourish under the right circumstances to be an efficient and competitive industry. For example, the Victorian market is ranked as the most competitive energy retail market in the world.¹ Customer service incentive schemes should only be used in markets that consist of a natural monopoly and not where competition has the potential to develop.

The ERAA has long held the view that competition offers the best form of protection to consumers: if consumers in a competitive market are unhappy with the customer service they receive from their energy provider, they can punish their provider by switching to a different company. Thus, energy retailers have a natural incentive to offer high levels of customer service. The ERAA therefore commends the Utilities Commission for introducing reforms, such as full retail contestability on April 1 2010, to improve the prospects for competition in the NT.

¹ VaasaETT 2008, World Energy Retail Market Rankings Fourth Edition October 2008.

The ERAA is concerned that including electricity retail companies under the scheme could act as a further deterrent for retailers looking to enter into the market. However, the issues paper does not indicate whether the scheme will apply to companies other than Power and Water Corporation (PWC). If the scheme only applies to PWC, then it would lead to an 'uneven playing ground' which would unfairly impact on PWC as a retailer. In either case, including retailers under the scheme would work against the long term development of competition in the electricity market in the NT.

Imposing schemes on companies, such as customer service schemes, results in increased costs due to the cost of compliance and administration. The consequence being that any financial penalty for poor customer service will be equal to the sum of the penalty and the administration/compliance costs. The same applies for any financial reward, which will be diminished by the size of the administration/compliance costs. This necessarily needs to be taken into account in the design of the scheme if it is to be implemented and there should be a thorough process of consultation with stakeholders. If these costs are to be passed on to consumers, the increase in costs must be shared amongst a relatively small market meaning that electricity price increases will be more severe.

Adhering to government regulation and schemes is a major factor in the everyday operation of energy retail companies. Current national energy market reforms aim to reduce the compliance burden of adhering to different regulations across state borders (e.g. the National Energy Customer Framework and the Australian Consumer Law amendment of the Trade Practices Act). Considering that no other state or territory in Australia has a customer service scheme imposed on energy retailers, if the NT is to do so then this could once again work against the long term development of competition in the NT because the NT market will be further differentiated from other energy retail markets as a result of the scheme.

Thank you for your consideration of this submission. Should you have any questions in relation to this submission please feel free to contact me on (02) 9241 6556.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Cameron O'Reilly', written in a cursive style.

Cameron O'Reilly
Executive Director

Energy Retailers Association of Australia